

The background of the cover features a complex network diagram. It consists of numerous orange circular nodes connected by thin white lines, forming a web-like structure. The nodes are distributed across the frame, with a particularly dense cluster on the left side. The background is a dark blue gradient with some light blue streaks, suggesting a digital or technological theme.

ADB

EARD 2010

**Knowledge
Management
Initiatives**

Asian Development Bank



EARD 2010

Knowledge Management Initiatives

Asian Development Bank

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Printed in the Philippines

Publication Stock No. ARM113249

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Divisions/Offices in East Asia Regional Department (EARD)

EAEN	= Energy Division
EAER	= Environment, Natural Resources and Agriculture Division
EAOD	= Office of the Director General
EAPF	= Public Management, Financial Sector, and Regional Cooperation Division
EASS	= Urban and Social Sectors Division
EATC	= Transport Division
MNRM	= Mongolia Resident Mission
PRCM	= People's Republic of China Resident Mission

ADB Knowledge Departments

ERD	= Economics and Research Department
RSDD	= Regional and Sustainable Development Department

Foreword

This annual publication, now in its fourth year, showcases the outcomes of knowledge management work of the East Asia Regional Department (EARD) for the year. It is a compendium of abstracts from 37 strategic knowledge products and services (KPS) prepared in 2010 and provides web links to select full reports.

The 2010 KPS for the People's Republic of China (PRC) covered the following core areas: policy directions for the 12th Five-Year Plan (FYP), poverty reduction in the new era, improving rural health services, basic health care system, dryland ecosystems, and development of city commercial banks. Emerging issues covered (i) the role of fiscal policy in rebalancing economic growth, avoiding the middle income trap, and rural finance; (ii) green economy such as rural biomass energy and eco-compensation; and (iii) inclusive growth such as population aging and long-term health care, universal social protection, and social dimensions of climate change.

For Mongolia, the 2010 KPS included financial sector assessment, protection of small shareholders' rights, developing the manufacturing industry, and livestock-based manufacturing. Regional KPS for both Mongolia and the PRC included climate change in East Asia, bilateral dimensions of CAREC trade facilitation agenda, and Resurging Asian giants.

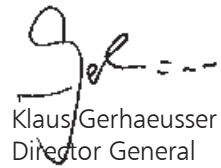
Integrating Knowledge in ADB Operations in the PRC and Mongolia. Knowledge management is an integral part of EARD operations in Mongolia and the PRC, with increased emphasis on generating knowledge from lending and technical assistance operations and policy-related KPS support.

Meeting Local Demand for Knowledge Products. KPS for Mongolia and the PRC are in response to country demand. In the PRC, priority focus is on macroeconomic management, energy efficiency and environmental protection, poverty reduction, and promotion of inter-provincial cooperation. ADB provided knowledge support and policy advice for the first time in the preparation of a 5-year plan for the PRC in response to the request from the National Development and Reform Commission (NDRC). In Mongolia, the focus is on inclusive economic growth and poverty reduction (including food security). ADB supported the request of the National Development and Innovation Committee (NDIC) under the Office of the Prime Minister for policy and sector papers as inputs into NDIC policy work, i.e., fiscal impact of mining resources, effect of inflation on the Mongolian economy, and livestock-based manufacturing.

Building Capacity for Knowledge Management. In Mongolia, a research advisory team has been supporting policy work since 2008. The team conducts policy studies for the NDIC, in cooperation with NDIC staff. This helps in increasing the capacity of NDIC staff in research methodologies and economic policy work.

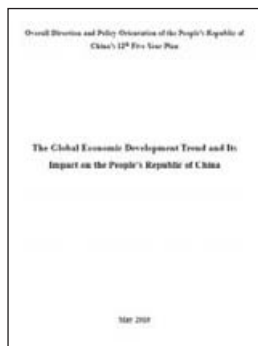
Establishing In-Country Knowledge Partnerships. ADB's first in-country knowledge partnerships were established for the PRC–ADB knowledge sharing platform, with the urban and transport sectors as first foci. The *PRC Urban Knowledge Hub* is a pioneering initiative made possible through the partnership between ADB and Tongji University in Shanghai for sharing of good practice approaches in urban planning. Preparation for establishment of the *PRC Transport Knowledge Hub* is under way, with a high-level, knowledge sharing workshop that kicked off activities in Beijing in early November 2010. The *PRC Transport Knowledge Hub* aims for the realignment of transport work in the region consistent with emerging transport challenges by developing sustainable road or rail networks.

Overall, knowledge management will remain to be a strategic priority in EARD's assistance to the PRC and Mongolia, with emphasis on value addition and proactive knowledge sharing.



Klaus Gerhaeusser
Director General
East Asia Department

Policy Notes Series



Overall Direction and Policy Orientation of the People's Republic of China's 12th Five-Year Plan

This study was completed as ADB knowledge support and policy advice to the People's Republic of China (PRC) as it prepares its 12th Five-Year Plan (12th FYP). The National Development and Reform Commission (NDRC) sought ADB's participation in two studies related to the preparation of the 12th FYP. The first study relates to the direction and policies for the 12th FYP while the second study focused on trends and policies for boosting industrial transfer in the PRC.

The first study on directions and policies for the 12th FYP has three sub-studies: (i) recent trends in the world economy and its impact on the PRC; (ii) the trend of the PRC macroeconomy during the 11th FYP; and (iii) the development trend, main tasks, and policies for the 12th FYP. Key findings were presented at an international seminar held in Beijing in January 2010.

In the past 30 years, the world has seen the PRC achieve rapid urbanization and impressive economic growth. The PRC's urbanization rate increased to 45.7% in 2008 from 17.9% in 1978. Even the global economic and financial crisis did not prevent the PRC from posting respectable economic growth. Experts and analysts invited to the international seminar agreed that the PRC was on its way to becoming an upper middle income country over the next 10–15 years.

In order for the PRC to achieve long-term and sustainable growth, it must address four main development constraints: insufficient consumption demand; insufficient drive in technological innovation; balancing economic development and eco-environmental protection; and achieving rebalancing between economic and social development, between urban and rural areas, and between different regions.

The 12th FYP study was used as a platform to discuss broader development issues at a high level and with the participation of local planning officials. The international seminar called for rebalancing the economy (sustaining economic performance), the environment (green development), and social performance (inclusive growth).



The Socioeconomic Implications of Population Aging in the People's Republic of China (ADB Brief No. 6)

www.adb.org/documents/briefs/ADB-Briefs-2010-6-Population-Aging-PRC.pdf

While the best-known dimension of population aging relates to fiscal sustainability due to spiraling pension and health care costs, the repercussions of aging are wider. The structure of the labor market, the pattern of savings, and migration flows will change in an aging society. Ultimately, aging will constrain economic growth.

Increased longevity and dramatic falls in fertility rates in the People's Republic of China (PRC) during the last 3 decades prompted the fastest demographic transition in the world. As a result, the size of the working-age population doubled. These favorable demographic trends underpinned economic reform by contributing to gross domestic product growth and lifting per capita income.

Aging is particularly challenging in the PRC for three reasons: the sheer magnitude of the population, the difficulties of aging at a relatively low level of per capita income, and the poor safety net standards.

Determined policy actions are imperative to address the challenge, including measures to promote economic growth through productivity increases, strengthening safety nets, developing capital markets, and accelerating pension reform.



Population Aging and Long-Term Health Care in the People's Republic of China (Observations and Suggestions)

The rapid aging of the population of the People's Republic of China (PRC) is exerting financial pressure on the provision of health care services and, in particular, long-term health care. The elderly poor are particularly vulnerable.

Although the PRC has recently made significant progress in extending health insurance coverage, out-of-pocket payments still account for about 45%–50% of total health expenditure, exacerbating the vulnerability of the elderly in rural areas. In order to minimize financial barriers, it is recommended to further expand health insurance coverage, reduce co-insurance rates, introduce ceilings on maximum out-of-pocket payments, and regulate the provision of health care services.

The changing family support system and the one-child policy make it difficult to rely on children to provide care to their parents. It is recommended that the long-term care delivery system be expanded by constructing more long-term care facilities and by training sufficient long-term care personnel.

There are various options to address the financing of long-term care. One approach would be to target beneficiaries and prioritize assistance for the elderly poor and for individuals with severe health disorders, instead of opting for a universal program, which is more costly. In a later stage, the government could gradually increase the coverage based on different eligibility criteria, including capacity to pay and the degree of the health problem.



The Role of Fiscal Policy in Rebalancing the People's Republic of China (ADB Brief No. 3)

www.adb.org/documents/briefs/ADB-Briefs-2010-3-Fiscal-Policy-PRC.pdf

Rebalancing growth is a major structural challenge in the People's Republic of China (PRC). Fiscal policy can play a leading role in promoting a shift toward a services-oriented and consumption-driven economic model.

Rebalancing the sources of growth requires a comprehensive reform package of mutually supportive and consistent policies rather than a single policy pursued in isolation. Fiscal policy could be much more effective as a tool for rebalancing if the other major components of the policy package are in place. This implies reforming the financial sector, the labor market, pricing mechanisms, and some aspects of the institutional framework.

The following fiscal policies could be pursued, within a broader overall policy environment, to support the restructuring process: (i) shifting the composition of public spending; (ii) strengthening automatic stabilizers; (iii) increasing the supply of low-income housing; (iv) introducing property taxes and reforming the value-added tax (VAT) system; and (v) strengthening fiscal transfers.



Anchoring Inflationary Expectations in the People's Republic of China (Observations and Suggestions)

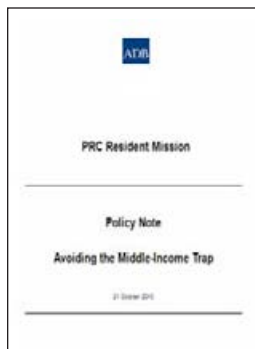
www.adb.org/Documents/Translations/Chinese/OS-Issue-2010-2-cn.pdf

In spite of existing overcapacity and negative or very low price indexes, inflationary expectations are growing due to the unprecedented monetary stimulus in 2009, the multiple goals of monetary policy, and the risk of imported inflation.

Inflationary expectations can be rational or irrational, but they will ultimately create inflation if not managed properly. International experience suggests that the best way to control inflationary expectations is to anchor them. This could be achieved by targeting the exchange rate, monetary aggregates, or the inflation rate. Among the three options, international experience suggests that inflation targeting appears to be the most effective mechanism.

Central bank credibility is indispensable to keep inflationary expectations well-anchored. Central bank autonomy, transparency, and fiscal discipline are prerequisites for such credibility.

In this context, it is recommended that in the short term, the People's Bank of China (PBOC), the central bank, should announce achievable targets for the growth of credit and money supply, and reinforce coordination between monetary and fiscal policies. In the medium to longer term, an explicit low inflation objective would be an appropriate nominal anchor for the People's Republic of China. Strengthening transparency, communication, and institutional capacity are also needed.



Avoiding the Middle Income Trap

Thirty years of successful reform has transformed the People's Republic of China (PRC) into the world's second largest economy. Rapid growth allowed for a swift transition from a low-income to a middle-income country, but today the challenge lies in how to move up to a higher income status.

While the PRC is still at an earlier stage of development and presently is not suffering from a middle-income trap, some of the lessons learned from international experiences might be useful in designing a strategy to sustain growth over the longer term. In this regard, most of the needed reforms are embedded in the context of economic rebalancing, a priority on the government's reform agenda. The following four main areas require urgent attention:

Rebalancing the Sources of Growth. The role of consumption as a driver of growth has declined over time and has been replaced largely by net exports, which has increased the vulnerability of the economy to external demand shocks.

Another imbalance deserving attention is the excessive reliance on public investment as a driver of growth, to the detriment of private investment, which entails significant opportunity costs in terms of employment generation and long-term growth.

Diversifying the Sources of Growth. Developing Services and Fostering Urbanization. In addition to rebalancing, searching for new sources of growth is crucial for growth sustainability. The importance of services as an engine of growth is widely recognized. It will also serve as a vehicle to foster private investment and increase the participation of the private sector in the economy. Accelerating the urbanization process in the PRC will unleash new employment opportunities and growth. It will also serve as a vehicle to foster private investment and increase the participation of the private sector in the economy.

Reducing Income Inequalities and Regional Disparities. The Gini coefficient, a measure of income inequality, has worsened sharply from 0.16 in 1979 to 0.47 at present, one of the highest in the world (only 29 countries have higher inequality). Inequality, if not addressed, will hinder future growth as it undermines consumption, constrains development in poorer regions, and generates social tensions.

Addressing New Challenges: Population Aging. Since 2000, the population has been aging rapidly, a factor that might hinder future growth due to the fact that population aging results in labor supply shortfalls that lead to diminished returns to capital and, hence, less economic growth. Aging is particularly challenging in the PRC not only because of the sheer magnitude of its population, but because it is happening at a relatively low level of income per capita, only one ninth of that of the United States, and one fifth of that of the Republic of Korea. Poor safety nets with most senior citizens depending on weakening informal family support aggravate the challenge.

This policy note suggests that the above identified challenges could be addressed by decisively implementing the government's rebalancing reform agenda. Rebalancing is a complex process that covers a wide range of structural adjustments to both the supply and demand sides of the economy. Therefore, the process would require a comprehensive reform package of mutually supportive and consistent policies rather than a single policy pursued in isolation. In this context, fiscal policy has a significant role to play, in particular to reduce income inequality and regional disparities.

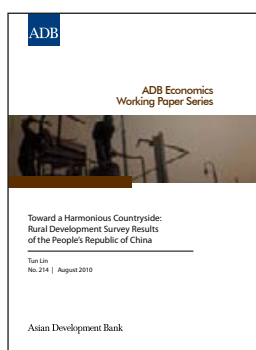


Toward Universal Social Security Coverage in the People's Republic of China (Observations and Suggestions)

Social security has proven to be an effective means to reduce poverty, narrow income inequality, and sustain economic growth. Since 2005, the People's Republic of China (PRC) has committed to substantial reform in the provision of basic social security coverage, in particular to address rural poverty.

The social security framework in the PRC is at present segmented and based on a complex system of uncoordinated schemes that result in inadequate coverage, both in terms of benefits and beneficiaries. Further, its dual nature (rural and urban parallel schemes) is no longer suitable to address the needs arising from increased labor mobility (e.g., migrant workers) and the challenges of accelerated urbanization.

Achieving universal social security coverage in the PRC by enhancing coordination among existing schemes requires policy adjustments and innovations, including diversifying benefits and contribution modalities to address the specific needs of targeted groups, establishing social pooling mechanisms, increasing budget allocations for social policies, strengthening the legal framework, and improving institutional capacity.



Toward a Harmonious Countryside: Rural Development Survey Results of the People's Republic of China (ADB Economics Working Paper Series)

www.adb.org/documents/working-papers/2010/economics-wp214.pdf

The construction of a New Socialist Countryside (NSC) is among the areas highlighted in the People's Republic of China's (PRC) 11th Five-Year Plan (2006–2010). The NSC aims to accelerate the development and modernization of the agricultural and rural economy in order to close the widening rural–urban income gap.

In an effort to better understand the priorities of and binding constraints to the PRC's rural development, and to aid the development of the NSC, two surveys were undertaken by ADB in six rural areas: Chongqing, Inner Mongolia Autonomous Region, Jiangsu, Liaoning,

Shaanxi, and Shangdong. The 2007 survey collected village and household information on the first year of the NSC program, and the 2010 survey examined the possible changes after the program's implementation. A special feature of these surveys is that they allow for comparison of villagers' and village cadres' views on the priorities of the PRC's rural development. Among the key findings are (i) income growth remains the highest priority on the PRC's rural development agenda; and (ii) lack of capital and lack of necessary job skills are the most binding constraints for growth in agricultural income and nonagricultural income, respectively. Based on the findings, the policy note identifies the following policy implications for future reform:

- Expenditures of the national government for rural development do not match villagers' expectations. To address this concern, the government's role in rural development should be further emphasized. To accelerate its agricultural development, the PRC may be able to draw experiences from its own industrial development.
- Income growth remains predominantly the highest priority for the PRC's rural development. According to the survey, the main constraints for agricultural income and nonagricultural income growth are lack of capital and lack of necessary job skills, respectively. National policies and strategies to overcome these constraints, such as improvement in access to agricultural credit and extension services and rural job training, are needed.
- In terms of social development, reforms in rural medical care, children's education, and old-age support are needed to improve the affordability and quality of these services.
- An effective and transparent monitoring and evaluation system for the PRC's rural development should be established at both provincial and village levels.
- To facilitate the involvement of development partners, ensure (i) a better coordination mechanism between national government grants and development partners' concessional lending; and (ii) a mechanism to share debt servicing (e.g., interest subsidy) between the national and local governments when development loans are used for rural development projects.



Bilateral Dimensions of the CAREC Trade Facilitation Agenda: Spotlight on Mongolia and the People's Republic of China (Knowledge Showcase)

www.adb.org/publications/bilateral-dimensions-carec-trade-facilitation-agenda-spotlight-mongolia-and-peoples-rep

This Knowledge Showcase focuses on the Central Asia Regional Economic Cooperation (CAREC) program as it relates to Mongolia and the People's Republic of China (PRC).

Support for regional economic cooperation is a means of achieving, inter alia, a more efficient use of regional resources, making economies more complementary, and promoting a rational expansion of foreign trade. Cooperation on regional public goods promises substantial economic benefits. The ADB-assisted CAREC program sponsors measures to facilitate trade and maximize the impact of investments in infrastructure.

The CAREC trade facilitation program has two components: (i) customs-related work that covers customs reform, modernization, and cross-border cooperation; and (ii) integrated trade facilitation that promotes efficient regional trade logistics development, priority trade corridor development, and enhanced interagency coordination. Building upon a Customs Modernization Project, ADB and Mongolia are working with external partners to develop a single window facility as part of a proposed CAREC trade facilitation project. This facility will eliminate duplicate data submissions and link to a regional CAREC single window platform to facilitate data exchange and expedite border-crossing formalities. A joint customs control pilot organized by Mongolia and the PRC emphasizes the harmonization of cargo manifests.

The CAREC program provides an effective institutional forum for negotiating complex, cross-border projects. ADB has invested in road infrastructure in Mongolia and the PRC, including CAREC Corridor 4 which extends from Mongolia into the PRC and is a major regional transit artery linking the Russian Federation and the PRC. To transform this into a corridor of seamless regional connectivity that will accelerate economic growth and efficiently move people and goods, ADB technical assistance supports efforts to coordinate trade logistics and infrastructure development planning in the two countries.

CAREC has allowed Mongolia to interact with its larger neighboring economies and to build the confidence required to tackle problems regionally. CAREC provides an effective institutional forum for negotiating complex cross-border projects. Tripartite transit agreements between the PRC, Mongolia, and the Russian Federation have thus far proved elusive. Recently approved ADB technical assistance will support efforts to revive negotiations and share the experience with other CAREC countries.



The Rural Health Services Construction and Development Program: Learning from Its Implementation 2006–2008

This policy note proposes quality of health care and social protection that should reflect the economic strength of the People's Republic of China (PRC) when rebuilding the health care system. The policy recommendations were based on the assessment of the Rural Health Services Construction and Development Program (RHSCDP). The RHSCDP, initiated in 2004, has the following guiding principles:

"Strengthening and improving the construction of health service systems in rural areas is both an important component of constructing socialist new countryside and an urgent need

for fully realizing the goal of well-to-do society and building a harmonious society. The improvement of health service conditions and the enhancement of health service capacities in rural areas, in combination with the promotion of the system of new model cooperative medical treatment and medical aid for rural areas, play a significant role in preventing and controlling major diseases in rural areas, improving the health level of farmers and preventing the phenomenon of 'poverty caused by diseases and returning to poverty because of disease'."

The PRC's economy is developing strongly, and infrastructure and general standards of living have improved remarkably but its health care system has not been responsive to the people's needs. Worse, it has deteriorated to the extent that poor people in the countryside have to fear a serious illness for two reasons: that the ailment does not get properly treated and that the treatment leaves the whole family in financial ruin.

The government has recognized these challenges and have put health care and health care system development among the central pillars in working toward a "harmonious society." Putting aside 850 billion yuan for the health sector in the first phase of a 10-year overhaul of the health care system shows this political will. By 2020, all Chinese citizens are to have access to affordable, basic medical services. Nevertheless, reforms and investments face major hurdles especially in the rural areas, notably the lack of qualified and appropriately motivated staff and the huge disparities amongst regions. This policy note identifies in detail the current shortcomings and roadblocks that should be tackled for an effective and efficient reform. The many links between the national reform agenda and the RHSCDP can serve as guidance for further improvement.

There are no quick solutions for solving the many complex issues faced by the Chinese rural health care system. The "Opinions" by the government provide an excellent starting point with clear central guidance but also allow for local innovation and adaptation ("giving full play to local initiatives"). The following recommendations point toward the three core aspects of the RHSCDP—construction, equipment, and training:

Construction: The disbursement of funds is going according to plan, but suboptimal design and construction processes hamper effective use of the money. A heavy financial burden is put on counties and facilities.

- Strengthen project management and ease the financial and logistical burden of all levels in designing and implementing the construction plans.
- Discuss the role of the province and their financial responsibilities.

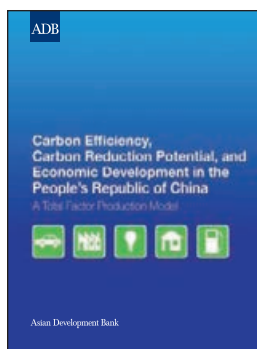
Equipment: The assessment clearly shows the lack of elementary equipment and at the same time the risk of duplication of efforts due to other ongoing programs.

- Allow for more local freedom in purchasing equipment and dovetailing the RHSCDP with other programs, which include the provision of equipment.

Training: The increasing shortage of specialized health workers and management capabilities severely constrains the capacity to provide good services.

- Further improve the quality of health care and other professionals and strengthen the human resource training.

Technical Notes Series

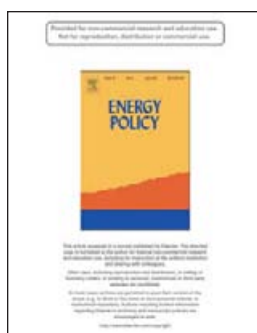


Carbon Efficiency, Carbon Reduction Potential, and Economic Development in the People's Republic of China: A Total Factor Production Model

[www.adb.org/publications/carbon-efficiency-carbon-reduction-potential-and-economic-development-peoples-republic-](http://www.adb.org/publications/carbon-efficiency-carbon-reduction-potential-and-economic-development-peoples-republic)

The most commonly used measure of the carbon performance of an economy is carbon intensity (carbon dioxide emission per unit of gross domestic product). As an indicator, it is easy to understand and use, but it has serious limitations. First, it is incapable of capturing the multidimensional features of an economy's carbon performance, as economies are endowed with different natural resources and factors of production. Second, it cannot measure the substitution effects between energy and other factors. It may increase solely because energy is substituting for labor, rather than due to any underlying deterioration in emitting technology.

This can happen in any modernization process of an economy. Other factors, such as changes in the energy mix or sector changes in an economy, can also cause movements in carbon intensity that do not represent actual changes in carbon performance. This paper therefore suggests considering economy-wide carbon performance from a total factor production perspective. Based on the lessons learned from the efficiency analysis literature, this paper proposes a new approach that relies on a model based on Data Envelopment Analysis (DEA). The paper presents the findings of an empirical study that was conducted using provincial-level data from the People's Republic of China in 2005. The findings not only contribute to the research methodology but may also have important implications for national and international climate change policies.



The Necessity of Distinguishing Weak and Strong Disposability among Undesirable Outputs in Data Envelopment Analysis: Environmental Performance of Coal-Fired Power Plants in the People's Republic of China

www.elsevier.com/locate/enpol

This article appeared in the *Energy Policy* journal published by Elsevier. Different from previous efficiency research, which normally assumes a uniform disposability for all undesirable outputs in a production

process, this paper proposes a model that distinguishes weak and strong disposability assumptions among various undesirable outputs based on their respective technical features. The paper illustrates the approach using a research sample covering 582 baseload coal-fired power plants in the People's Republic of China in 2002. The final results show that imposing the technically correct disposability features on undesirable outputs makes a significant difference to the final efficiency evaluation. This suggests the necessity of properly distinguishing disposability features among undesirable outputs in a production process in efficiency-type models.



Carbon Intensity: A Faulty Gauge

www.chinadaily.com.cn/cndy/2010-03/10/content_9564164.htm

This technical note appeared as an article in the *China Daily* in March 2010. Combating climate change requires the international community to work together to reduce CO₂ emissions globally, stabilize its atmospheric concentration to a safe level, and prevent nations, cities, and people from further damaging the environment. Achieving this requires greatly improving the carbon performance of all economies. The article discusses carbon intensity as a globally accepted indicator which is limited in scope and poor in representing an economy's carbon performance.

Carbon intensity is a ratio between carbon emissions and gross domestic product. As an economy's carbon performance is heavily affected by its resource endowments, such as capital stock and energy supply and its mix, the real carbon performance of an economy can be significantly different from what carbon intensity indicates. An economy's carbon performance is not only closely related to its economic development but also linked to its international competitiveness and energy security. For policy makers, a sound CO₂ reduction target cannot be reached if regional resource endowments are not taken into consideration.

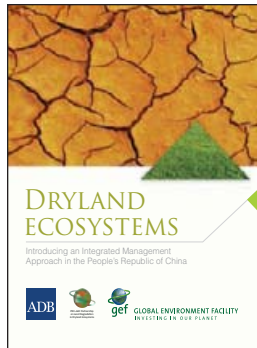


Integrated Gasification Combined Cycle Power Plants – A Way Forward for Coal in the People's Republic of China

This technical note focuses on integrated gasification combined cycle power plant (IGCC) as clean-coal technology. IGCC is a state-of-the-art electricity generation technology for coal that reduces emissions. It cuts carbon dioxide emissions by 10%–20% and emits only a fraction of the sulfur dioxide and nitrogen oxide of technologies currently employed in many countries. Moreover, in combination with carbon capture and storage (CCS) technology, IGCC provides the least-cost option for near-zero carbon dioxide emission coal-based power plants.

The technical note also covers programs of the People's Republic of China and ADB in promoting IGCC and CCS technologies.

Sector and Thematic Papers Series



Dryland Ecosystems: Introducing an Integrated Management Approach in the People's Republic of China

www.adb.org/documents/reports/dryland-ecosystems/default.asp?p=prcpubs

The People's Republic of China (PRC) suffers from large-scale land degradation problems, such as severe wind and water erosion, soil nutrient losses, waterlogging, salinization, river system sedimentation, deforestation, grassland degradation, and biodiversity loss. The dryland areas of the western PRC, which cover about 40% of the country's land area, contain some of the most severely degraded land globally. With only about 7% of the world's farmland and 6% of the world's annual water runoff, the PRC must feed 22% of the world's population. Land degradation, therefore, significantly threatens the lives of local residents, in particular, and the future economic welfare of the nation, in general.

With the assistance of ADB and the Global Environment Facility (GEF), the PRC government established in 2002 the PRC–GEF Partnership on Land Degradation in Dryland Ecosystems to address land degradation issues, reduce poverty, restore dryland ecosystems, and conserve biodiversity through an effective integrated ecosystem management (IEM) approach. IEM is a scientific, ecological approach to natural resources management that aims to ensure productive and healthy ecosystems by integrating social, economic, physical, and biological needs and values. It provides an integrated planning approach within which the PRC government can develop legal, policy, institutional, and socioeconomic systems required to support the sustainable use of dryland ecosystem resources.

The PRC–GEF Partnership assisted the western provinces of Gansu, Qinghai, and Shaanxi, and the autonomous regions of Inner Mongolia, Ningxia Hui, and Xinjiang Uygur in (i) improving the legal aspects of combating land degradation, (ii) formulating their own individual IEM strategies and action plans for land degradation control, (iii) developing land degradation monitoring and information management systems, and (iv) strengthening institutional capacity. These six provinces and autonomous regions are the worst-affected areas of the PRC, accounting for four-fifths of the country's desertified areas and about 90% of its degraded areas.

The PRC–GEF Partnership also assisted the selected communities in identifying and adopting area-specific interventions and locally appropriate practices for controlling land degradation and improving ecosystem management. Eighteen pilot projects were undertaken in selected communities in each of the six provinces and autonomous regions to demonstrate the IEM approach. The aim in selecting the

communities was to have a broad representative within each province and autonomous region, in order to ensure that all lessons learned could be subsequently scaled up over a wider geographic area and replicated in other communities facing similar environmental and socioeconomic circumstances. The technical interventions carried out in the pilot study projects cover the following areas: alternative agricultural solutions, renewable energy, agricultural technology, salinity control, improvements in animal husbandry, combating desertification, support services, and biodiversity. The experience gained from these pilot projects has proven the cost effectiveness and sustainability of various local IEM approaches.

The PRC government focuses future work under the PRC–GEF Partnership on (i) scaling up activities to deepen understanding of the IEM approach, (ii) disseminating experiences along with policy and institutional reforms, (iii) piloting innovative sustainable land management instruments, and (iv) addressing remaining and critical new challenges (e.g., adapting to climate change, applying IEM through public–private partnerships, developing innovative financing mechanisms, and improving coordination with other programs).



The Protection of Minority Shareholders' Rights in Mongolia

The report presents findings and recommendations based on research work done on ensuring minority shareholders' rights in Mongolia.

Although transition to a market economy in Mongolia was made 2 decades ago, capital market development is still at very early stages of development, which negatively influences financial sector development. Among others, the main reasons that hinder efficiency of capital markets include low investor confidence resulting from weak corporate governance and failure to ensure equal treatment of minority shareholders' rights.

In order to identify the nature of problems and challenges faced by minority shareholders in Mongolia, a literature review was carried out on research work previously done in this area. A diagnostic survey was undertaken involving 150 respondents. Review of complaints filed at the Financial Regulatory Commission of Mongolia and court rulings on cases related to minority shareholders was also done. The three most notable cases, which involved violation of rights of minority shareholders, were looked into. A client feedback survey helped monitor the effectiveness and efficiency of government agencies and institutions in the provision of services.

Main problems and challenges facing minority shareholders can be explained by weaknesses in the legal, judicial, and regulatory environment, lack of enforcement and accountability mechanisms, and absence of incentives for companies to voluntarily ensure equal treatment of minority shareholders' rights.

Based on analysis of problems and challenges, recommendations are proposed for strengthening legal and regulatory frameworks, improving voluntary compliance by companies, and instilling solid business practices with regard to ensuring minority shareholders' rights in Mongolia.



Research on the People's Republic of China's City Commercial Banks

The report provides an analysis of the development of the city commercial bank (CCB) sector in the People's Republic of China (PRC) and offers suggestions and recommendations for further development.

The report discusses the development of CCBs from their history, market positioning, operating environment, and current status. CCBs originated from the urban credit cooperatives which were established in the 1980s. Both regulators such as the China Banking Regulatory Commission (CBRC) and local governments provided considerable support to CCBs for their development. CBRC's encouragement of merger and ownership restructuring of CCBs improves CCBs' corporate governance and increases their scale of operations. Further, strengthened risk control regulations promote the improvement of the risk management level of CCBs. Permission of cross-regional operation of CCBs also provided them a larger geographic market. Generally, in recent years, because of disposal of nonperforming loans (NPLs), improvement of corporate governance, and permission of cross-regional development by CBRC, CCBs have grown rapidly.

CCBs' business is heavily influenced by regional economic development which has contributed to the gaps between different CCBs. Although CCBs developed rapidly in the past years, they are still facing uncertainty of market positioning, influence of local economy and government, high loan concentration, weakness in cross-regional development and risk management, pressure of capital supplement, etc. From the perspective of the Chinese banking industry, the competition is becoming fierce and complex, thus challenging the operation and risk management of CCBs. On the other hand, state-owned banks (SOBs) and joint-stock banks are paying more attention to small and medium-sized enterprises (SMEs) and rural financial services, which were the traditional business of CCBs. Compared with SOBs and joint-stock banks, CCBs are still weak in human resources, brand, information technology, risk management, and risk avoidance, and necessary improvements in these areas are imperative.

Policy Recommendations. From the perspective of facilitating SMEs and rural development, regulators should adopt a differentiated policy on CCBs, the main pillar for serving SMEs and rural areas, according to practice. In addition, regulators can also provide support to the development of CCBs by improving efficiency, developing data resources, establishing a shared platform, etc.

Loan Growth. The loan growth ceiling of 17% set by CBRC in 2009 will no doubt restrict the development of CCBs. The restriction on loan growth of some good CCBs may be relaxed.

Concentration. Because of the limitations set for the concentration ratio, the CCBs cannot get involved with bigger enterprises with stronger risk-resisting capacity. A more fair and reliable method is to determine the concentration ratio based on the risk level and risk contribution of the business.

Business Thresholds. The thresholds for entry into many types of business, as set by CBRC, are too high for the small and medium-sized banks and therefore lead to uneven competition. From the perspective of CBRC, lowering entry thresholds, and at the same time establishing control mechanisms over business scale, would be a better solution.

Consistent Regulatory Standards Nationwide. This involves consistent regulatory standards in different regulatory authorities, different areas, and in different banks in same area.

Promoting Banks to Serve SMEs, Rural Finance, and Western Development. In order to facilitate the balance of financial resources, more positive support shall be provided to CCBs to encourage them to set up branches in areas with fewer financial institutions. CCBs, with support from regulatory authorities, shall develop products suitable for SMEs and rural finance.

Establishing a CCB Cooperation Platform. A large number of CCBs have a strong desire to undertake multiregional operations for fear that their limited operating network may not attract customers. If a platform can be established for sharing certain resources, CCBs' multiregional operations could be reduced significantly. In Germany, most of the small banks share the same information technology (IT) platform in a way that cuts the repeated investment in IT construction. As for the CCB industry as a whole, a uniform CCB platform can help reduce wasting resources and eventually realize resource sharing.



Implementing a Basic Health Care System: The Case of Chongqing, People's Republic of China

The study examines the issues affecting health care reform in the People's Republic of China (PRC): financing modalities, integration of urban and rural financing mechanisms, methods to define basic health care packages, performance assessment, and provider payment schemes. The study is intended to help those involved in reforming Chongqing's health care system in developing an overall framework for financing and delivering health care and identifying areas for further research and analysis.

The PRC has moved from a socialized health care system, putting strong emphasis on equality and nationwide coverage with essential services, to a market-driven form of health care delivery, which led to implementation of new technology and Western drug-based treatment. However, the accompanying *huge variations* in health care indicators, coverage, and benefits in rural and urban areas, amongst provinces and between migrant population and permanent residents, have left a large part of the population dissatisfied with the current health care system.

The *need for reform* has been clearly recognized by the government. Substantial provisions have been made to implement nationwide social

health insurance, improve basic public health services, and increase efficiency in health care delivery. The goal is “basic health for all” as an element in striving towards a “harmonious society.”

In addition, a *number of local reform projects* have been started to further explore options for developing and implementing specific technical approaches to improve financing, access to services, responsiveness to population needs, and quality of care. Chongqing, a city directly under the administrative control of the national government, has been chosen as one of these pilot sites.

Clearly there is no “*one size fits all*” solution. The focus is on defining responsibilities and powers, suggesting processes, and providing knowledge from other similar projects. It cannot be overemphasized that *health care reform is as much a social and institutional undertaking as it is a technical one*. Nevertheless, given the vast area to be covered in Chongqing, and the huge population with widely different needs, *consequent use of latest available technology* is strongly advocated. Providers need to be involved in this process right from the beginning.

There are no quick solutions for solving insufficient health care financing, providing equitable access to quality care, and protecting against catastrophic health expenditures. Nevertheless, an astute mix of theoretical considerations, international experiences, careful monitoring and evaluation along the way, and a general willingness to also be proven wrong and open for changes will go a long way toward these goals.

Elements of successful reform include:

- The political will and unequivocal support;
- Close consultation with affected parties;
- Health system capacity, allowing to deliver “value for money”;
- Quantitative and qualitative monitoring showing success—rapid and in the mid- to long-run;
- Link among researchers, reformists, and politicians;
- Pragmatism;
- Wider coverage of national exchange and local adaptation of interesting concepts;
- Independent feedback and invitation of international views; and
- Sometimes virtual reforms may be a start, e.g., national health accounts and accounting exercises indicating where the money goes in the present form of financing.



Social Dimensions of Climate Change in Urban People's Republic of China

While the biophysical and economic consequences of climate change have been widely researched, attention must also be given to social dimensions of climate change to appreciate how social groups will be differently exposed to and affected by the impacts of climate change, and particularly how best to prepare and protect the poor and vulnerable members of society least able to cope with the impacts of environmental degradation and climate change.

Research for this paper suggests five recommendations for addressing the social dimensions of climate change in the People's Republic of China (PRC):

- **Develop a holistic approach to the social dimensions of climate change**, which involves addressing not only the immediate vulnerabilities of particular communities but also the social institutions and processes which place particular social groups at a greater disadvantage when confronting and adapting to the future risks associated with climate change.
- **Ensure that climate change mitigation is balanced against social considerations.** While mitigation of the causes of climate change is clearly essential, the cost must not be inequitably shouldered by the poorest and most vulnerable communities. Transition to a greener, lower-carbon future must not exclude the poorest and vulnerable social groups. This transition must be assisted, where necessary, by tariff reforms and the maintenance of subsidies to guarantee access to cleaner forms of energy, transport, and services to all citizens. Closure of highly-polluting industries, development of new sources of energy, and implementation of environmental programs should not jeopardize the livelihoods of workers or their long-term access to health care and education services, pensions, or housing.
- **Continue reforms to social protection schemes.** Efforts to reform existing social protection schemes should continue to ensure that all PRC citizens can enjoy better-funded, nationwide, and fully portable public services regardless of their *hukou* household registration.
- **Improve awareness through grassroots education.** There is a clear need for greater public awareness to support behavior change and help mitigate the causes of climate change and prepare for its impacts. It is possible that environmental nongovernment organizations could play a role in implementing such programs.
- **Establish channels for citizens to participate in environmental programs.** To minimize the potential for social unrest and political instability resulting from environmental disasters and the impacts of climate change, citizens should be actively engaged in the planning and implementation of local environmental programs. The quality of their living environments is a key concern for the

PRC's urban citizens, who are willing to participate and expect authorities to provide leadership to improve and protect their environments.

To safeguard continued prosperity and harmonious development, the PRC authorities must pay attention both to (i) the impacts of climate change; and (ii) the impacts of measures taken to mitigate and adapt to these impacts upon the poor.

For the poorest members of Chinese society, protection from the social forces which create inequitable exposure to climate change may be as important—if not more so—as protection from the effects of natural hazards. Addressing the social dimensions of climate change in urban PRC is therefore a key priority for the PRC authorities today.



Liveable Cities Beyond Housing: The Physical and Social Environments of the Chinese Urban Poor in the Context of a Floating Population

This paper examines urbanization in the People's Republic of China (PRC) and explores the impacts of spatial and social changes on the environments of the poor. While considerable progress has been made in improving physical environments for the poor and vulnerable urban migrants, social and institutional challenges continue to impede their full absorption into PRC's urban populations. Addressing these physical needs and social challenges will be crucial for creating sustainable urban environments in the coming years.

In 2008, the urban population of the PRC had risen to 607 million, representing 45.7% of the total population. Two-thirds of this urban population growth is attributable to rural-to-urban migration, predominantly from inland rural to coastal urban areas. By 2015, the urban population of the PRC is projected to rise to 700 million and exceed the rural population for the first time in history. By 2030, analysts forecast that one billion people will live in the PRC's cities. Rapid urbanization has contributed significantly to the PRC's economic growth and improved living conditions for many millions of citizens throughout the country.

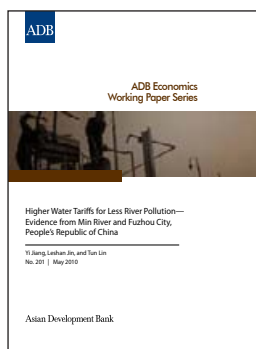
The scale and pace of urbanization in the PRC is unprecedented. The implementation of the hukou registration system has facilitated the physical and social management of this process, allowing cities to develop without the development of slum areas as found in many other parts of the world. The creation of new urban spaces has been accompanied by environmental degradation and new forms of social exclusion. The challenges faced by the Chinese urban poor migrants extend beyond their physical environment to include access to services, the provision of welfare support and the creation of sustainable urban communities in rapidly-developing cities with constantly circulating populations of migrant workers.

Physical Challenges. The PRC is reaching the limits of urban land expansion. As urban sprawl leads to increasing commuting times and the need to extend transportation networks, new regulations have been introduced to protect agricultural land. There is a clear call for future densification of urban space and better integration of services, housing, and facilities as the PRC recognizes the need to incorporate both environmental and social dynamics (as well as economic considerations) into further urbanization during the 21st century and beyond.

Social Challenges. The implementation of the *hukou* household registration system has led to the creation of new vulnerable groups and distinct areas inhabited by the poor migrants in urban PRC today. Paradoxically, the very populations who have initiated and sustained industrial growth and urban expansion are those most vulnerable to the environmental and social risks of such development.

From Housing to Livable Cities. There are now many initiatives under way to modify the *hukou* system and expand both the coverage and portability of different forms of social assistance (including various forms of insurance, pensions, and housing subsidies). The cities of Chongqing and Harbin are developing inclusive housing policies, providing education for the children of migrant workers, and widening access to social welfare. A major aspect of developing “livable” cities is confronting the challenges posed by environmental degradation and social exclusion. In addition to conforming to strict environmental regulations and resource conservation, the PRC’s eco-cities are designed to address social dimensions of urban growth by providing improved welfare support, housing, job security, and public services to residents.

As this paper has shown, equal attention must be focused on the institutional and social barriers to inclusion which limit the living standards and access to opportunities of many millions of residents in the PRC’s urban centers. By reconciling these growing contradictions, the PRC can continue its path of economic progress towards a sustainable and truly harmonious society.



Higher Water Tariff for Less River Pollution – Evidence from the Min River and Fuzhou City in the People’s Republic of China (ADB Economics Working Paper Series)

www.adb.org/Documents/Working-Papers/2010/Economics-WP201.pdf

Water pollution has emerged as one of the most serious environmental problems facing the People’s Republic of China (PRC). It threatens the health of ecosystems and humans, increases water treatment costs, exacerbates water scarcity, and ultimately will impose constraints on the sustainability of the country’s development. Based on results of monitoring at more than 400 river sections all over the country, overall water quality remains poor in the PRC despite some moderate

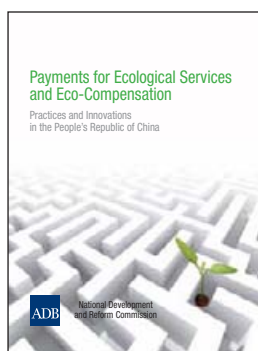
improvements emerging in recent years. By 2008, 45% of the monitored river sections had water quality below class III, meaning that they are not eligible for drinking even after treatment, and 21% too polluted for any use. Due to pervasive river basin pollution, annual surveys found that over one quarter of drinking water sources for the key cities failed to meet the standards since 2006.

While water pollution is recognized as one of the top issues to be addressed in the national strategy, attention is mostly given to stationary industrial polluting sources and domestic sewage discharges. Agricultural pollution from rural areas—the largest source of surface water pollution—remains unchecked and uncontrolled in general. A large proportion of agricultural pollution consists of nonpoint sources (e.g., animal wastes from livestock) often located in the upstream of river basins.

The upstream towns and villages, which often are poor and lack income sources other than agriculture, prioritize improving agricultural production over preserving water quality of the river. In contrast, the downstream cities increasingly demand clean air and water as well as other environmental amenities given their income and population growth. Upstream pollution of the water sources jeopardizes downstream residents' access to healthy drinking water.

Upstream nonpoint source pollution has become an increasingly significant threat to urban drinking water safety in the PRC. This tension between underdeveloped upstream areas and developed downstream areas is a common situation in the PRC and other countries. The polluters-pay principle may not be appropriate in dealing with the nonpoint sources both because the polluters have legitimate rights to develop and higher implementation and enforcement costs may arise when applying command-and-control measures or pollution levies.

Payment for environmental services (PES) is a promising mechanism to deal with nonpoint water pollution. In designing a sound PES, it is critical to determine the willingness to pay (WTP) of urban beneficiaries for water pollution controls from the upstream. Estimating the WTP will also shed light on the debate about water tariff reform, although in a specific context. An analysis of household data from a contingent valuation survey conducted in Fuzhou City, PRC in 2009 reveals that household income is the most important factor in determining respondents' position on water tariff increases to finance upstream water pollution control through a PES scheme. Economic burden is the major reason for many respondents to oppose a water tariff increase, while others are concerned with government accountability and effectiveness. Income also plays a key role in determining a household's WTP.



Payments for Ecological Services and Eco-compensation: Practices and Innovations in the People's Republic of China

www.adb.org/publications/payments-ecological-services-and-eco-compensation-practices-and-innovations-peoples-rep

Policy makers in the People's Republic of China (PRC) have been experimenting with new approaches to environmental management, resulting in a wide array of policy and program innovations under the broad heading of eco-compensation. Many of these are market-based instruments, particularly payment for environmental services (PES), currently an emerging policy debate regarding the extent to which beneficiaries should pay, and the providers should be compensated, for the provision of natural resources and environmental services to promote sustainable, balanced growth. This publication is a synthesis of the proceedings of the International Conference on Payments for Ecological Services convened in Ningxia Hui Autonomous Region in September 2009 to support eco-compensation programs in the PRC.

The conference concluded that international experiences in PES programs and other market-based environmental policy instruments have great potential to inform the PRC's developing eco-compensation policy framework in creating an enabling environment for private sector participation. It was also highlighted during the conference that the PRC is building its own wealth of experience in eco-compensation to inform both domestic and international environmental policy development on the evolving role of government in protecting and ensuring the provision of environmental services.

Key policy findings from the conference are as follows:

- PES and eco-compensation will not, by themselves, be able to resolve the issues underlying the PRC's current environmental challenges, which include ambiguous property rights over ecosystem services, a dearth of effective platforms and mechanisms for interagency and interregional cooperation, and lack of effective and powerful enforcement authorities for environmental regulations. However, eco-compensation and PES have great potential to serve as valuable new instruments within the PRC's environmental policy tool kit.
- The Government of the PRC has a good opportunity to use eco-compensation policy as a means to introduce more incentive-based mechanisms into environmental policy. Such mechanisms will help to improve outcomes and reduce the costs of conservation and environmental protection.
- While the valuation of ecosystem services is an important ongoing part of developing ecosystem service markets, PES, and eco-compensation programs, policy makers focus less on calculating these values and more on designing the mechanisms necessary to allow stakeholder negotiations to effectively arrive at eco-compensation subsidy rates.

- General subsidy may not be the most cost-effective eco-compensation mechanism with which to obtain ecosystem service provision. A range of possible mechanisms, which allow for variable subsidy rates, can be used to more cost-effectively achieve outcomes.
- Eco-compensation policy and programs need the necessary legal and policy frameworks to be effective. This includes clarification of property rights and mechanisms for effective coordination and cooperation between different regions, levels of government, and government agencies.
- In developing its eco-compensation framework, the Government of the PRC should also carefully consider developing policies to promote and engender greater private sector participation in ecosystem service markets.
- The government needs to carefully consider how, and when, poverty reduction goals can be effectively incorporated into eco-compensation policies and programs.



Mongolia: A Financial Sector Assessment

The paper identifies problems in virtually all areas of the institutional framework for finance, from the governance of the commercial banking sector, capital market, the credit information system, and collateral system. There are gaps in the legal framework, with necessary laws missing, while at the same time, the Law on Currency Settlements raises transactions costs and increases risks of doing business in Mongolia. Furthermore, access to long-term finance is very limited.

Currently, local financial markets are thin; the ratio of private sector credit to total credit is well below the average for lower middle-income countries. The commercial banking sector is currently experiencing a crisis arising from substantial bad debts. The banking sector is fragmented, with three commercial banks accounting for over 50% of total loans. Governance in many of the banks is weak and the sector is ripe for consolidation.

Many uncertainties also remain in the real estate collateral framework which requires resolving before a well-functioning property market can emerge. The non-bank financial sector is small, accounting for the equivalent of only 5% of total private sector credit. The bond market is embryonic, with no interbank trading of bonds. The financial leasing system struggles with legal anomalies that increase uncertainty and raise the risk of lending, with the result that financial leasing rates are very high. The stock market is currently very small, daily turnover is low, and only a limited number of companies are traded.

A number of laws hinder the evolution of the financial market. Most importantly, the law governing settlements in local currency increases both costs and risks of doing business in Mongolia and hinders the development of Mongolia's financial markets. Some laws are missing, the two most important of which are an electronic transactions law and a Credit Information Law (a draft of this has been prepared).

The first step to improve access to finance is to reform the secured transactions framework. This requires a review of the current legal

regime, the identification of potential conflicts, the drafting of a new law, and the installation of a filing archive to record security interests.

A second necessary step to improve access to short-term funding is improvement in the credit information system, which currently is incomplete. First, legislation is necessary to provide a legal foundation for credit information; a draft law exists but has not yet been passed. Second, the existing system, which is provided by the Bank of Mongolia, needs to be upgraded to provide information on smaller borrowers to reduce inaccuracies in the credit records. Third, coverage needs to be extended to include a broader range of financial institutions, and ultimately equipment sellers, tax liens, and utility payment information.

The paper points out the weakness of corporate governance in the banking sector and suggests that much more vigorous supervision of commercial banks is necessary, combined with an increase in penalties, beyond those contained in the banking law for those who violate regulatory guidelines. Banking supervision has not been strong, and the strengthening of governance and supervisory capacity of the Bank of Mongolia should be considered. The paper suggests a comprehensive review of banking law and regulations; introduction of a system of deposit insurance to replace the blanket government guarantee is an urgent priority; and if the mineral boom does materialize, there will be a substantial opportunity to develop the stock market.

The paper also points out that there is no bond market in Mongolia but there is significant potential for one to develop. First, the Mongolian government could issue bonds to cover the creation of a financial institution to take over the “nonperforming” assets in the financial system. Second, the public sector budget deficits could be at least partially funded by issuing longer-term domestic bonds. Third, with appropriate modifications of the collateral law, the issuing of bonds, some of which could be issued locally, could fund the exploitation of mineral wealth in Mongolia.



Research on Strategies and Policy for Integrated Poverty Reduction in the People's Republic of China in the New Era

In the past 30 years, poverty reduction in the People's Republic of China (PRC) has achieved tremendous progress. Besides continuous rapid economic growth, the pro-poor industrial development, targeted policy to special groups, and civil society participation which is one of the pillars for poverty reduction, all contributed to this achievement. However, as the effect on poverty reduction of the economic growth is attenuating, rural poverty in the PRC is becoming more complex, and the limitation of traditional poverty reduction mechanisms has become increasingly evident. Putting poverty alleviation work in a broader context and taking various factors impacting poverty into overall consideration have become the key to promote poverty reduction work in the PRC in the new era.

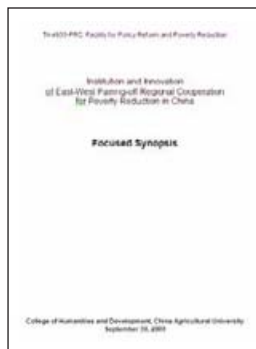
The most significant issue is still the fragmentation of poverty reduction policy and practices. First, under this segmented intervention,

the poor population does not benefit from the rapid economic growth, and income gaps are increasingly and alarmingly widening. Second, the effect of pro-poor industrial development policy is hindering progress on poverty reduction. Third, the poverty reduction work targeted at special vulnerable groups lacks accurate data and capacity for modeling and replicating pilot projects to ensure its efficiency. Finally, mobilization of social resources for poverty reduction still needs further guidance and coordination.

An integrated poverty reduction strategy and policy should be made central in tackling the poverty issue in the PRC. The imbalance between the PRC's economic growth and policy development is profoundly manifested by urban-rural disparities, regional imbalances, and imbalance in governance between communities and the government. Correspondingly, integrated rural-urban development, regional integration, and integrated community participation and government leadership are the three main fields for poverty reduction work in the PRC in the new era.

To achieve the poverty reduction goal, urban-rural integration will focus on improving living and working conditions of migrant workers, lost-land farmers, and poor urban inhabitants and will prevent these vulnerable groups from falling deeper or returning into poverty. Regional integration will encourage East-West relations taking into account the population and economic, social, cultural, and environmental resources. In particular, division in functional zones, population distribution and migration flows, resource compensation, and cultural heritage as well as environmental protection are all important elements to consider under regional integration for poverty reduction. Intervention encouraging community integration into the decision-making process will examine how to effectively stimulate communities' initiative and creativity, enhance their identity and assets, and improve the use of public finance, services, and markets by the communities. This approach will contribute to form a micro-level poverty reduction mechanism based on community participation.

From the perspective of urban-rural integration and making good use of various poverty reduction resources, volunteer resources are of crucial importance. However, current policy and practices do not pay sufficient attention to volunteer resources. This research has made a preliminary exploration and suggestions to improve the mobilization of volunteer resources as a catalyst for poverty reduction. Volunteer resources mobilization can significantly support urban-rural integration, regional integration, and community integration. However, accurate measures are still needed to enable volunteer resources to play effectively their role in poverty alleviation. Volunteer resources mobilization can significantly support urban-rural integration, regional integration, and community integration. Cooperation and communication between government and volunteer resources should be enhanced to have complementary functions and effectively contribute to alleviate poverty. Enlarging the range of services offered by volunteer resources will strengthen the volunteer poverty alleviation market. The government should prompt volunteer actions, open relevant resources to the volunteer market, coordinate better and avoid overlapping projects, and increase the efficiency of poverty reduction operations.



Institution and Innovation of East–West Regional Cooperation for Poverty Reduction in the People’s Republic of China

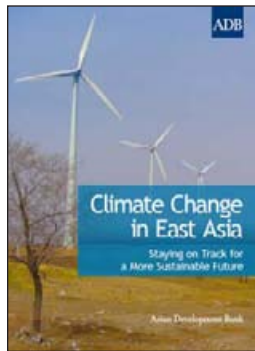
The study analyzes the situation of East–West cooperation for poverty alleviation and identifies the future needs for policy adjustment. During the meeting of exchange of experiences on nationwide East–West cooperation in poverty reduction in April 1999, then Vice Premier Wen Jiabao mentioned that the gap between the eastern and western regions should be dialectically viewed. He said, “One is to see that the uneven development among different regions is a long-standing historical phenomenon; the second is to attach great importance and take effective measures to properly solve the issue of regional gap; the third is to understand that it needs a process to solve the issue of regional gap, and the narrowing of regional gap should be upheld as an important long-term policy.”

Cooperation in poverty reduction between the East and the West was an innovative policy proposed under the National Poverty Reduction Plan issued in 1994. Its objective was to mobilize the developed provinces and municipalities in the East to support the development of the poverty-stricken areas in the West to shake off poverty through East–West regional cooperation.

Viewed from a micro perspective, the cooperation between eastern and western provinces has been persistently improving the regional cooperation patterns and models in the past 10 years of development and has provided valuable experience of cooperation for other regions. Since the People’s Republic of China (PRC) is a large and diverse country, more incentives should be given to provincial level government to achieve institutional innovation for East–West cooperation in poverty reduction.

East–West cooperation in poverty reduction is an effective channel to solve the regional gap problem. After the Wenchuan earthquake, the PRC undertook important work deploying support from some eastern and western provinces in the reconstruction of counties in disaster areas. This shows that East–West cooperation should be pursued as an important long-term policy for poverty alleviation. This is an example of cooperation within the East–West framework.

The widening gap among different regions is an unavoidable problem in social and economic development. Regional cooperation with Chinese characteristics is an important area for development and is the common responsibility and obligation of localities of the entire country. East–West cooperation in poverty reduction in the PRC has tremendous development potential and space for improvement. After the global financial crisis, the PRC launched its fiscal stimulus program covering expansion in public investment in infrastructure to maintain economic growth. One of the priorities is the investment in the livelihood of the central and western regions, which is focus of the medium term development strategy. East–West cooperation on poverty reduction efforts should fully take advantage of the valuable opportunities at present, including the 12th Five-Year Plan period during which the state will increase its investment to boost the poverty reduction work through East–West regional cooperation arrangements.



Climate Change in East Asia: Staying on Track for a More Sustainable Future

www.adb.org/publications/climate-change-east-asia-staying-on-track-more-sustainable-future

ADB's East Asia region is a region in the foreground of the climate change debate. Balancing economic growth with climate change impacts in the People's Republic of China (PRC) has captured global attention. Its neighbor Mongolia, though not a major contributor to global emissions, faces similar development challenges as impacts from changes in the climate grow.

East Asia, comprising two developing member countries, is an area of stark contrasts. The PRC has the world's largest population and is the world's largest emitter of greenhouse gases, mainly from heavy industry and energy production.

Mongolia has the lowest population density of all ADB developing member countries, and 30% of its emissions are from raising livestock. East Asia's economic and industrial expansion, especially in the PRC, has significantly reduced poverty in the region. But this progress comes at a price—additional environmental pressures and staggering amounts of greenhouse gas emissions, all leading to destructive climate change impacts that threaten all sectors.

Worsening with climate change, both the PRC and Mongolia frequently suffer from extreme weather events, along with land degradation and decreasing water availability. Further development must go hand-in-hand with adapting to and mitigating these impacts, or risk far-reaching environmental, economic, and social setbacks.

The PRC has been an early and ambitious mover in response to climate challenges, setting self-imposed reduction targets for energy efficiency and carbon intensity and moving quickly to access global carbon market finance. National plans have set in motion actions across the vast country that has quickly become one of the world's largest users of renewable energy. Still, significant challenges remain to keep pace with rapid industrial growth and balance environmental and economic issues going forward.

Mongolia's economy is growing rapidly and, like that of the PRC, is mostly fueled by coal. Significant activities in the livestock sector are vulnerable to climate change and contribute emissions. In response, Mongolia is moving quickly to increase energy efficiency and build a more resilient economy.

Activities of ADB in East Asia have supported climate-responsive measures, from clean energy to flood control for more than two decades. ADB will continue to support the PRC and Mongolia and further integrate climate change into their plans for sustainable economic growth. ADB is now supporting innovative climate change responses in the subregion, including advanced clean coal technologies, expansion of modern rail networks, and reducing emissions from deforestation and land degradation (REDD). Going forward, ADB will continue to increase support for low-carbon, climate-resilient growth in East Asia. ADB will increase the exchange of knowledge between its member countries and work to leverage additional finance from development partners and the private sector to support sustainable development.



Corporate Governance and the Role of Internal Audit in Asia

The paper explores the status of internal audit practices in Asia and provides a number of recommendations for improvement. This was prepared upon the request of the China Institute for Internal Audit, through the Ministry of Finance, People's Republic of China (PRC).

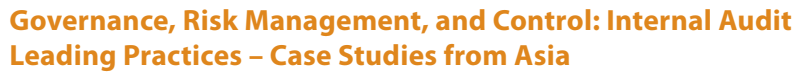
The paper compares internal audit activity, professional competency of internal auditors and the methods and procedures employed by internal auditors in Australia, Japan, Malaysia, and the PRC. The paper focuses on the future of internal audit practices in Asia and learning from best practices to improve the role of internal audits in enterprise risk management, prevention and detection of fraud, and enhancing the organization's ethical values and integrity and its corporate social responsibility. The report concludes with a summary of the lessons from the research and implications for the PRC and other Asian Confederation of Institutes of Internal Auditors (ACIIA) member countries.

Learning from the international experience based on the actual situation of a country. Different governance models coexist in enterprises of the PRC and other countries. However, governance models from abroad are not suitable to these enterprises. Key problems in corporate governance have not yet been effectively solved.

From the paper's analysis, countries and regions in Asia, including the PRC, can have a better understanding of the characteristics of the four governance models identified in the paper, the pros and cons of applying them in Asian enterprises, and the role of internal audit.

Entrenching the role of internal audit and maintaining its position in corporate governance. The level of governance in enterprises of the PRC, as well as other Asian countries, differs. The same is also true in the internal auditing practices across countries or regions, as well as among enterprises of one country or region. The role of internal audit in corporate governance also differs among enterprises. There is room for improvement in the role of internal audit when compared to the definition of internal audit by the Institute of Internal Auditors (IIA) which covers corporate governance, risk management, assurance, and consulting services.

Developing internal audit strategies in line with specific enterprise characteristics. Nowadays the PRC and other ACIIA members are confronted with a dilemma: allowing internal audit to gradually develop based on Western practice or directly requiring modern internal audit framework into all organizations and thereby bypassing the natural development. The PRC and other members should develop internal audit strategies according to features of different enterprises. First, the government and IIA institutes should encourage the transition of internal audit from traditional financial audit to modern risk-based audits. Second, internal audit plans should be risk-based and focus on internal control and risk management. Third, the internal audit profession should steer toward independence, standardization, and specialization. Fourth, the PRC and other ACIIA members should ensure supervision and implement a quality assurance system that includes self-assessments and external assessments.



The first part of the paper provides an analysis of internal audit and corporate governance practices, internal audit and risk management, and internal audit assurance. It introduces definitions of governance with a brief description of an enterprise governance model and then provides an opening reflection on the importance of risk management, role of assurance strategies and Audit Committee as essential parts of the corporate governance process. Then, an evaluation of the role of internal audit and corporate governance is provided, with a description of the evolution of corporate governance and further defining the meaning and understanding of governance. A brief history and commentary on the Committee of Sponsoring Organizations (COSO) of the Tradeway Commission Internal Control – Integrated Framework, published in 1992, is provided and this leads to a discussion on the state of corporate governance in Asia, with a comparison of centralized versus distributed internal audit functions. The chapter follows with a detailed description of the linkage and role that risk management and internal audit must play in the governance framework of any organization by introducing the definitions of risk contained in the International Professional Practices Framework of the Institute of Internal Auditors. More detailed discussion is provided on the COSO Enterprise Risk Management (ERM) Framework which was published in 2004.

The Directions for Developing the Manufacturing Industry in Mongolia

The current state and potential of Mongolia's economy, the huge market of neighboring countries like the People's Republic of China (PRC) and the Russian Federation, the opportunity to sell to the European market, and the developing Asian market were considered in the following directions for developing Mongolia's manufacturing industry:

- **Textile industry, in particular cashmere goods production.** Improve the spinning and knitting production technology; capacity building for personnel; quality assurance of products

are at world standards; and processing the cashmere prepared locally for export to the world market.

- **Production of milk and dairy products.** Comply with world standards; respond to domestic demand and then increase production for export to the markets of the Russian Federation, Japan, Kazakhstan, and Saudi Arabia.
- **Developing intensively the farming industry.** Production of local flour; reduction on defects of skin and hide with improved technology from Italy and other industrialized countries.
- **Developing ferrous and non-ferrous metal production.** Increase production to meet fast-growing demand of the PRC and the world market.
- **Meeting the local demand for cement and developing high technology manufacturing industries.** Production of cement, the major raw material for construction works; and developing manufactured products with high technology content such as petroleum and chemicals.



Livestock-Based Manufacturing of Mongolia: Business Environment of Skin Manufacturing

This study assesses the business environment of skin manufacturing factories (SMFs) in Mongolia. This was prepared in response to the request of the National Development and Innovation Committee, Office of the Prime Minister, Mongolia as input into its policy formulation work.

There is a gap between businesses and government policies as evidenced by the continuing business environment problems being faced by SMFs despite the business environment reform undertaken by the government, i.e., programs and plans to improve livestock-based manufacturing in Mongolia. In order to contribute to fill this gap, the study assessed the business environment of SMFs in 2010.

The study shows that Mongolia does not process all raw materials prepared by the livestock breeding sector in the country. SMFs covered in the study do process about one-third of skins prepared by the livestock breeding sector, and a majority do primary processing only. This suggests that, in terms of raw materials, there is an opportunity to expand skin manufacturing in Mongolia. Small and medium-sized enterprises (SMEs) which engage in skin manufacturing can be developed as large-scale SMFs. All raw skins can be fully processed, and export of processed skins can be increased not only to the People's Republic of China (PRC) but also to other countries. Further, skin manufacturing can be developed and expanded to produce skin products, rather than processed skins.

Lack of financial resources is a common business environment problem relevant to any livestock-based manufacturing in Mongolia. SMFs face lack of resources due to the high interest rate of commercial banks, and they survive on their sales and borrowing financial resources from relatives. Due to lack of financial resources, factories face disruption in operations and in expanding production.

SMFs face similar difficulties as livestock-based manufacturing in general, such as lack of financial resources, high insurance costs, and bureaucratic requirements for export products. SMFs face threats of relocation out of Ulaanbaatar as part of government policy to move industries with associated polluting effect on water. This negatively impacts on the business environment of SMFs as a whole. Alternative policy options recommended include allocation of new land as factory sites with proper sewage systems or to move only the part of the manufacturing activity which has a polluting effect on water in Ulaanbaatar.

Apart from the general plan to improve the business environment, it is desirable to develop a suitable plan for the livestock-based manufacturing sector, including SMFs, not only in the year 2010, but also each year on a permanent basis.

It is also recommended to improve the flow of information from government to businesses and from businesses to government. This will enhance the exchange of views on needs and constraints of businesses and contribute to adopting relevant policies for business development in Mongolia.



The People's Republic of China's Income Inequality at the Provincial Level: Trends, Drivers, and Impacts

www.routledge.com/books/details/9780415559485/

Rising income inequality accompanied by rapid economic growth in the People's Republic of China (PRC) since it embarked on economic reforms in the late 1970s has attracted wide international attention, and there is now a large body of research aimed at measuring its magnitude.

The study finds the state of the PRC's income inequality as incomplete, largely due to lack of unit level household income and expenditure data covering the entire population. The study uses the grouped household income data during 1990–2005, covering 23 provinces and about 85% of the population, to extrapolate unit level household data.

The PRC's Gini coefficient increased from 0.345 in 1990 to 0.457 in 2005 in nominal terms, and from 0.287 to 0.388 after adjusting for cost of living differences. Gini coefficients varied across provinces, from 0.33 (Beijing) to 0.47 (Qinghai).

The study examines underlying factors driving the PRC's income inequality, i.e., industrialization, urbanization, trade openness, privatization, and higher education attainment. Regression results showed that increasing privatization is the most significant driving force behind the PRC's rising inequality. Provinces with higher percentages of urban population employed by state-owned enterprises registered lower provincial income inequality. In contrast, provinces with higher percentages of rural population employed by town and village enterprises have higher provincial income inequality.

The effects of other structural factors such as industrialization, urbanization, and trade openness are not as evident as privatization.

Schooling has no significant effect on enlarging urban–rural inequality and overall provincial inequality.

The study shows that rising inequality during the past 15 years has slowed down the pace of poverty reduction efforts in the PRC, but the inequality effect has been declining as the PRC’s economic growth becomes more and more pro-poor. This is true at the provincial level, with the number of provinces experiencing pro-poor growth increasing over time.

Special Publications Series



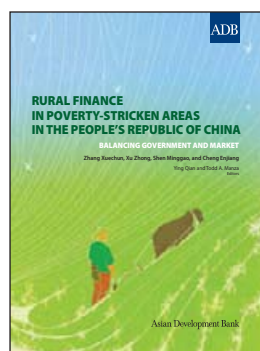
Resurging Asian Giants: Lessons from the People's Republic of China and India

www.adb.org/publications/resurging-asian-giants-lessons-peoples-republic-china-and-india

The developmental successes of the People's Republic of China (PRC) and India are reshaping the economic landscape not only of Asia but also the world. The diverse and rich development experiences of the two countries emanate from the wide differences in their economic policies and systems, dissimilarities in their institutions, and their social diversities. However, their development challenges are similar. The PRC and India can learn from each other's experience in meeting their common challenges. The successes and failures of the PRC and India in their quest to transform and grow will also provide some valuable insights on development policy to other developing countries in Asia.

This book puts together studies supported under the program of studies on the development experience of the PRC and India, supported under regional technical assistance (TA 6298-REG). Scholars from the PRC studied India's experience in (i) macroeconomic management during the reform period; (ii) the growth of information technology-based services sector; (iii) the professional and higher education sector's contribution to growth; (iv) the finance sector, capital market reforms, and the use of sophisticated financial instruments; and (v) the growth of internationally competitive local entrepreneurship. Scholars from India studied the PRC's experience in (i) macroeconomic management during the reform period; (ii) financing and implementation of infrastructure projects; (iii) foreign direct investment-funded and export-oriented mass manufacturing; (iv) state-owned enterprise reforms and restructuring; and (v) labor sector reforms.

The book provides an in-depth analysis of reforms and developments in selected sectors of the two large dynamic emerging market economies. The overview chapter provides an analytical summary of the findings from the sector studies, and draws inference for development policy in other developing countries in Asia and the Pacific. The findings of the studies are of strategic importance and practical use not only to the governments of the PRC and India but also other developing countries and emerging market economies.



Rural Finance in Poverty-Stricken Areas in the People's Republic of China: Balancing Growth and Market

www.adb.org/publications/rural-finance-poverty-stricken-areas-prc-balancing-government-market

This publication presents international experience to examine the evolution and relevant lessons of rural finance in the People's Republic of China (PRC) and to provide suggestions for improvement. Developing rural finance requires the participation of local small and medium-sized banks, micro credit companies, and cooperative financial institutions as well as the development of formal and informal credit, guaranty mechanisms, and a system of investment and financing.

In recent years, the newly opened rural financial market has provided rural economic entities with diverse financing options and has introduced the concept of small-scale financial institutions. These institutions include village banks, microcredit lending companies, and credit shops.

The key to developing a new rural financial entity lies in nurturing localized rural financial services through a bottom-up approach, which creates the basis for a new rural financial market.

Improving financial services for small and medium-sized enterprises and farming households requires investment in local financial services. The opening of the rural financial market is more about reinventing incentive systems and promoting local financial institutions than about inviting the return of state-owned commercial banks or restructuring rural credit cooperatives hindered by large volumes of nonperforming loans.

Localized rural financial entities can leverage their information advantage for rapid expansion.

The nurturing of localized rural finance should begin by providing a legal framework for informal finance. Non-deposit-taking informal finance providers can be transformed into new rural financial organizations, and deposit-taking informal financial service providers should register as formal financial institutions and be subject to prudential supervision.

Localized financial entities, likely to be cooperatives, should be developed in a bottom-up manner to meet local demand using local money. As their scale increases, they may either be transformed into commercial entities or remain as cooperatives.

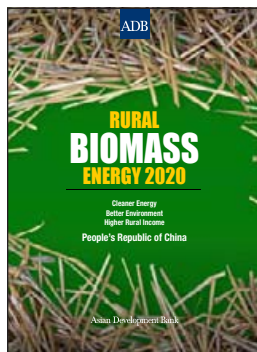
The development of new rural financial institutions can also help attract commercial banks back to rural areas. Relatively large commercial banks can make wholesale loans to small financial entities with sound performance and credit, and such wholesale lending can be commercially viable and profitable.

Effective supervision of localized rural financial entities requires both innovation and effective communication between government and market.

New rural financial institutions will require different supervisory measures than commercial banks, and the objective of supervisory innovation is to balance financial stability with efficiency. The guidelines for microcredit lending companies—issued jointly by the China Banking

Regulatory Commission and the People's Bank of China—introduced breakthroughs in rural financial supervision. Other changes are also required. For instance, the capital adequacy ratio requirement for new rural financial entities needs to be upgraded. Moreover, small financial entities should be allowed a higher deposit rate ceiling to enhance their competitiveness. Finally, government policy lending targets should be met through commercially sustainable means.

The ultimate goal in opening the rural financial market is to meet diverse financial demand and to mitigate financial risk by enhancing competition and improving the efficiency of the financial system. It is hoped that the opening of the rural financial market will be a harbinger of future financial market opening throughout the PRC.



Rural Biomass Energy 2020

www.adb.org/publications/rural-biomass-energy-2020-peoples-republic-china

The developing world is looking for effective, creative ideas for upscaling clean, renewable energy. No place will gain more socially, economically, and environmentally from increased access to clean, reliable energy than poor, rural areas. Biomass energy, produced from animal and crop wastes, is a sensible renewable energy option for rural areas, and it can be cost-effective at community and industry scales if guided effectively by governments.

This special publication explores the potential of biomass energy to close the urban–rural energy gap, raise farmer incomes, and mend the environment in the People's Republic of China (PRC). Its findings are instructive for other developing and medium-income countries exploring energy-for-all strategies. The report examines the promises and limitations of leading biomass energy technologies and resources for various distribution scales, including but not limited to household biogas digesters. The information is based on lessons learned and experiences from the ADB–financed Efficient Utilization of Agricultural Wastes Project in the PRC, as well as findings and conclusions from a technical assistance grant to assist the government draft a national strategy for developing rural biomass energy.



Inclusive Growth for Harmony

www.chinadaily.com.cn/opinion/2010-10/20/content_11432617.htm

This op-ed article, which appeared in *China Daily* on 20 October 2010, called for inclusive growth as a pivotal strategy in the People's Republic of China (PRC) to make significant progress in reducing income inequality in the next 5 years. One could consider growth as inclusive when every member of society participates in and benefits from it on an equitable basis.

Rising income inequality has cast a shadow over the PRC's spectacular economic rise of the last 30 years. Even as per capita gross domestic

product grew by about 9% a year during 1979–2008, lifting a large portion of the population out of poverty, income inequality in the PRC has risen to among the highest in Asia.

The PRC Government has in recent years taken action to address this issue through measures such as infrastructure investment in the lagging western and interior provinces, policies to facilitate rural development and benefit the farmers and rural migrant workers, and more spending on basic education and health care to protect vulnerable groups. More recently, the PRC unveiled its vision of a harmonious society.

Critically, policies for inclusive growth should distinguish between two types of inequality. One is driven by unequal access to opportunity and circumstances beyond the control of the individual, reflecting largely market and policy failures, institutional weaknesses, or social exclusion. The other is driven by differences in effort and reflects the rewards and incentives that a market economy provides for citizens who work harder, look for opportunities, and take risks in seizing them.

How does this translate into policy actions?

Inclusive growth requires high, sustained, and efficient economic growth so that enough productive jobs will be created and economic opportunity expanded for all.

Inclusive growth requires social inclusion to ensure that every man and woman has equal access to opportunity. This means investing in education and health care to expand human capacity especially of the disadvantaged.

Inclusive growth requires effective social safety nets to mitigate the risks and vulnerabilities associated with transitory livelihood shocks, often caused by ill health, economic crises, industrial restructuring, or natural disasters.



Economic Changes More Needed Than Economic Growth

<http://opinion.globaltimes.cn/foreign-view/2011-04/601726.html>

This op-ed article, which appeared in *Global Times* on 15 December 2010, called for policies for more inclusive growth which must build on what has already worked for the People's Republic of China (PRC).

Inclusive growth is about broadening access to economic opportunities, so that a wider range of citizens can participate in and benefit from growth. Broader sharing of the benefits of growth, in turn, will strengthen support for the next generation of reforms and opening up toward a more demand-driven growth process. These reforms are crucial for the PRC to move up the economic ladder and avoid falling into the “middle income trap.” This is why human resource development and promotion of homegrown innovation have become centerpieces of the country's development strategy.

The reforms of the past 30 years could be broadly characterized as a process of unleashing socialist forces, by aligning individual incentives and productivity with rewards and incomes. The gradual permeation of

market forces has awakened domestic ingenuity and entrepreneurship that had been dormant earlier. Thus, policies for inclusive growth must reinforce market-oriented reforms, and further unleash individual productivity so that the size of the economic pie can continue to expand rapidly.



Injecting Life into Asia's Troubled Waters

These op-ed articles, which appeared in *Jakarta Globe* (10 Oct 2010), *Daily Times Pakistan* (10 October 2010), and *Taipei Times* (5 October 2010), outline the challenges of polluted urban rivers in Asia, the impacts on local economies and communities, and the success of applying integrated water resource management approaches in several major cities.

Asian rivers are challenged by climate change, population expansion, and changes in land use. Even those with better water quality standards are not without their own share of battered histories. The Singapore River, Seoul's Han River, and Shanghai's Suzhou Creek once served as receptacles of enormous residential, commercial, and industrial wastes that poisoned water quality and aquatic life. Decades of cleanup interventions cost their governments more money than it takes to prevent pollution in the first place.

Other initiatives demonstrate similar promise such as the revival of the Min River, Fuzhou City's main water source for 1.8 million residents in the People's Republic of China. Fuzhou is expanding the treatment of municipal water through build–operate–transfer schemes from the private sector. Private sector participation is working satisfactorily because the local government is primed to undertake sector reforms, provide the financial outflows, and guarantee the fulfillment of social obligations. Neighborhood associations are also being mobilized to foster environmental awareness using a community-driven development approach.

In recent years, approaches to Integrated Water Resources Management emphasize the delicate balance of economic, social, and environmental benefits to ensure the success of cleanup interventions. There are alternatives to resolve the hurdles ahead because costs become higher the longer it takes to act.

East Asia Department Knowledge Management Initiatives in 2010

This annual publication showcases the results from knowledge management initiatives of the East Asia Department for each year. It is a compendium of abstracts from 37 strategic knowledge products and services (KPS) completed in 2010 and provides web links to select full reports.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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Publication Stock No. ARM113249